

# **BUSINESS DEMOGRAPHY IN SPAIN: A SURVIVAL ANALYSIS WITH SPECIAL FOCUS ON FIRMS' INITIAL FINANCIAL CONDITIONS**

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## **Abstract**

The impact of entry upon market performance depends not only on the number of entries and their size, but also on how long do the firms last. Consequently, there are an increasing number of papers, most of them focused on the United States and restricted to the manufacturing sector, aimed at analysing the post-entry performance of firms. Unfortunately, there is not much written about the topic in Spain, mostly due to the lack of appropriate longitudinal micro data on firms. The current paper attempts to fill this gap making use of a new longitudinal database covering all sectors of the business economy constructed at the Bank of Spain from different sources of information. We have studied the determinants of new firm survival using non-parametric and parametric procedures especially designed to analyse duration phenomena. Among the firm-specific variables considered to have an effect on survival we have included the initial firm's financial structure. Our results suggest that holding debt, instead of equity, has positive and important effects on survival up to some point, which can be interpreted as the optimal long or short term debt ratio. Beyond this point, further debt increments have a negative impact on survival, and this effect is more important the higher is the corresponding debt ratio or indebtedness of the firm. We also find that larger start-ups survive longer across all sectors of the economy. Another interesting result of the paper is the inverted-U shape of the unconditional and conditional hazard functions.